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T.N - Q4 2023 AT&T Inc Earnings Call

EVENT DATE/TIME: JANUARY 24, 2024 / 1:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by. Welcome to AT&T's Fourth Quarter 2023 Earnings Call. (Operator Instructions) And as a reminder, this conference is being recorded. I would like to turn the conference call over to your host, Amir Rozwadowski, Senior Vice President of Finance and Investor Relations. Please go ahead, sir.

Amir Rozwadowski - *AT&T Inc. - Senior VP of Finance & IR*

Thank you, and good morning, everyone. Welcome to our fourth quarter call. I'm Amir Rozwadowski, Head of Investor Relations for AT&T. Joining me on the call today are John Stankey, our CEO; and Pascal Desroches, our CFO.

Before we begin, I need to call your attention to our safe harbor statement. It says that some of our comments today may be forward-looking. As such, they're subject to risks and uncertainties described in AT&T's SEC filings. Results may differ materially. Additional information as well as our earnings materials are available on the Investor Relations website.

With that, I'll turn the call over to John Stankey. John?

John T. Stankey - *AT&T Inc. - CEO, President & Director*

Thanks, Amir. I appreciate you all joining us today, and my best wishes for a productive and healthy year ahead to all of you.

We finished 2023 with a strong fourth quarter as we made substantial progress on our strategy of being America's best high-performance network provider. We showed again in the fourth quarter and throughout 2023 that we're delivering consistent positive operating and financial results, including sustained margin expansion and annual free cash flow growth.

To do this, we work to grow the right way, invest at historic levels and best-in-class 5G and fiber assets and deliver the best network to more customers and more places, all while simplifying our operations to drive efficiency while enhancing the customer experience.

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As a result, we're now positioned to provide our growing customer base with the best communications technologies to meet their ever-growing need for connectivity supporting sustainable growth. We are deliberately allocating capital to expand and enhance our networks and improve financial flexibility to drive incremental shareholder returns.

Since Pascal will cover the fourth quarter results in detail later on, I'd like to highlight some of our full year accomplishments and long-term business trends. Let's start with wireless.

For the full year, we delivered more than 1.7 million postpaid phone net additions with strong service revenue growth and continued historically low postpaid phone churn, all while maintaining healthy ARPUs. Taking a step back, it's clear how far our investment-led strategy has taken us from where we stood only 3 years ago.

Since the start of 2021, we've substantially improved our Mobility position and brand perception. We went from losing wireless share to growing our share of subscribers. As a result, we increased our postpaid phone base by more than 10% to more than 71.2 million subscribers. This represents our best 3-year stretch of postpaid phone net add growth in more than a decade.

During the same 3-year time span, we've added to our share of industry wireless service revenue growth, increased our annual wireless service revenues by more than $7.5 billion and grew Mobility EBITDA by about $4 billion. This level of sustained success requires contributions from across the company, including our network team that continues to enhance and expand our 5G and fiber networks. Our mid-band 5G network is now available to more than 210 million people, offering faster speeds and an enhanced experience.

We're also bringing more fiber to Americans than anyone else. This excites me because where we build fiber, we win. Over the past 3 years, we went from passing about 18 million consumer and business locations to now passing more than 26 million locations. As we continue to expand our reach, we're growing our fiber base with 1.1 million AT&T Fiber net adds in 2023, we've generated more than 1 million AT&T Fiber net adds annually for 6 straight years.

Over the past 3 years, we've grown AT&T Fiber subscribers by 3.4 million or by nearly 70% to more than 8.3 million. This success reflects new customer wins and lower churn, trends that we see as sustainable.

The financial benefits we continue to realize through our fiber focus are significant. Compared to 2020, we've more than doubled our fiber revenues to over $6.2 billion in 2023, and our broadband ARPU climbed more than 20% as customers continue to seek higher value plans with faster speeds.

In addition to delivering high-margin revenue growth, fiber is more energy efficient, requires less maintenance and customers keep the service longer. Therefore, as we scale our fiber footprint, we expect to continue to drive margin expansion. This flywheel of faster subscriber growth, higher revenues and expanding margins gives us confidence in our ability to repeat similar levels of fiber-fueled growth in the future.

In summary, our Mobility and Consumer Wireline businesses are growing in a sustainable fashion. We're now a highly competitive wireless brand and the leading fiber brand. We've increased customer satisfaction, improved networks and are the best positioned to drive long-term returns as the convergence trend develops.

Now let's shift to our second goal of improving efficiencies. Last July, we announced we achieved our $6 billion-plus run rate cost savings target well ahead of schedule. We then set a new target for an incremental $2 billion-plus in run rate cost savings by mid-2026. We're making strong early progress on this target.

Importantly, we're seeing the benefits from these cost-reduction efforts increasingly fall to the bottom line. This is translating into improved operating leverage as evidenced by the adjusted EBITDA margin expansion we delivered in 2023.

Going forward, we expect margin expansion to continue. I'm proud of the progress the team has made in streamlining our business. We now have further confidence in our ability to deliver on our promised goals.

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Turning to our last key priority. The benefits from our capital allocation strategy are meaningful and evident in our results. We were again a top investor in America's connectivity through our 5G and fiber networks in 2023. Even with our elevated levels of investment, we delivered better-than-expected full year free cash flow of $16.8 billion, which is above our previously raised guidance.

Furthermore, we achieved this significantly higher free cash flow while simultaneously reducing our short-term obligations. We reduced our vendor financing obligations by $3.3 billion in 2023, all while making more than $2 billion of nonrecurring spectrum clearing payments.

With a year-end net debt to adjusted EBITDA ratio now below 3x and the improved flexibility in 2024 to dedicate more cash to debt reduction, we are confident in our path to achieve the 2.5x range in the first half of 2025.

So overall, I'm proud of what our team has accomplished in 2023. Our strong fourth quarter to end the year accomplished all of our stated 2023 objectives. We replicated our success in 2022 again in 2023, exactly like we said we would.

Moving to 2024, it should be no surprise that our plan is to do it again. Again, here's how we'll build off our momentum in the year ahead.

In Mobility, we expect to continue our success with adding quality customers on the strength of our go-to-market approach and elevated customer value proposition. We also intend to improve our performance by targeting underpenetrated segments like value-oriented customers and small- to medium-sized businesses as well as better penetrating our expanding fiber customer base.

As we do this, we'll take the same disciplined approach by remaining steadfast on profitable growth. Where we build fiber, customers love the value and service we offer. And accordingly, we become the favorite to win.

We'll continue to extend our lead as the company that reaches more homes and businesses with fiber. We remain on track to pass our 30 million-plus consumer and business fiber location target by the end of 2025.

As I mentioned last month, the better-than-expected returns we are seeing on our fiber investments potentially expands the opportunity to go beyond our initial target by roughly 10 million to 15 million additional locations. This also assumes similar build parameters in a regulatory environment that remains attractive to building infrastructure.

And in areas where we don't yet have fiber, AT&T Internet Air allows us to better serve customers in select markets with fixed wireless Internet access. We also expect 2024 to be the proven year for our GigaPower initiative, and we plan to explore other unique opportunities to extend the AT&T brand on a converged basis beyond our traditional footprint.

The good news is that no one is better suited to answer the call for converged connectivity than AT&T. We already have North America's largest wireless network and the nation's largest and fastest-growing fiber network.

There is simply no debate that 5G and fiber are hands down the best connectivity technologies available. We are the only provider that benefits from owners' economics at scale on both technologies.

Why is this so important? Traffic on our network has continued to increase in excess of 30% each year over the past 3 years. Our position with the most pervasive U.S. fiber footprint, the largest wireless network puts us in the unique position to grow at an advantaged marginal cost structure.

At AT&T, we're making the right moves to deliver high-performance converged networking at a scale and breadth second to none in the United States. We're doing this by continuing our investment in scaled, flexible and increasingly open networks that address customers' needs to get on the Internet no matter where or how they are situated.

Our existing strength and presence in literally every market segment from the largest multinational corporations to the most basic consumer allows us to effectively scale and commercialize the right solution with the right technology at the right price.

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Accordingly, we're well positioned to grow high-performance networking that seamlessly combines fiber, mobile and fixed wireless in satellite technology in the most secure, effective package desired by our customers.

This is all part of orienting the company to put the customer first and prioritize simplicity in everything we do to further our growth and become more efficient in 2024. This includes enhancing our digital and self-service channels that are increasingly being supported by AI. This work will help shape the effortless and personalized customer experiences required for a truly converged future.

AI-driven efficiencies are also another significant leg of our cost savings efforts as we make progress on achieving our announced incremental $2 billion-plus run rate savings target by mid-2026.

In summary, we have the right formula to continue the improved operating momentum established over the last 3 years. I'm pleased with our momentum exiting 2023 and remain optimistic about where AT&T is positioned in the broader industry as we enter a year that I suspect will shape the direction of our industry in the decade to come.

With that, I'll turn it over to Pascal. Pascal?

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

Thank you, John, and good morning, everyone. As John shared, we've maintained our momentum across both 5G and fiber.

Let's start by reviewing our fourth quarter financial summary on Slide 7. Revenues were up 2.2% for the quarter and 1.4% for the full year largely driven by wireless service revenue, broadband revenues and Mexico. This was partly offset by a decline in Business Wireline. Adjusted EBITDA was up 3.2% for the quarter and 4.7% for the full year as growth in Mobility, Consumer Wireline and Mexico were partly offset by a decline in Business Wireline.

In the fourth quarter, adjusted EPS was $0.54, down 11.5% for the quarter due to a $0.10 impact from higher noncash pension costs, lower capitalized interest, lower equity income from DIRECTV and a higher effective tax rate. For the full year, adjusted EPS from continuing operations was $2.41, in line with our previously stated expectations of the low $2.40s range.

Free cash flow for the quarter was $6.4 billion, including about $900 million in DIRECTV distributions. For the full year, we came in above our already recently raised guidance with $16.8 billion in free cash flow. This is an improvement of $2.6 billion year-over-year or up 19%. We achieved this free cash flow growth even with about $1 billion of higher cash taxes and about $750 million of lower cash distributions from DIRECTV.

Additionally and as previously mentioned, we reduced vendor financing obligations by $3.3 billion last year. Cash from operating activities came in at $11.4 billion for the quarter, up $1 billion year-over-year.

For the quarter, capital expenditures were $4.6 billion with capital investments of $5.6 billion. Full year capital investment was $23.6 billion as we continue to invest in 5G and fiber at historic levels.

We also continue to strengthen our balance sheet. Last year, we lowered net debt by about $3.3 billion, which was also burdened by $1.7 billion increase year-over-year for changes in FX rates related to foreign debt.

We additionally completed an $8 billion pension liability transfer through the purchase of insurance annuities last spring. And we've done all of this despite overcoming meaningful declines in the legacy Wireline part of our business.

Now let's look at our Mobility segment operating results on Slide 8. Our Mobility business continues to deliver strong results, growing both revenues and EBITDA for the sixth consecutive year.

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We are pleased with our 526,000 postpaid phone net adds for the quarter, particularly given some of the rich promotion by our peers. This success demonstrates that the general health of the wireless industry and the consistency of our go-to-market strategy, which continues to resonate with high-value customers.

Revenues were up more than 4% for the quarter and 2.7% for the year. Service revenues also continued to improve, thanks to steady and profitable subscriber growth. In the quarter, service revenues rose about 4% while they were up 4.4% for the full year.

Mobility EBITDA for the quarter was up about $450 million or 5.6% driven by growth in service revenues. For the full year, Mobility EBITDA grew 7.4%, and we continue to see margin expansion year-over-year.

Mobility postpaid phone ARPU was $56.23, up 1.4% year-over-year. ARPU growth continues to be largely driven by our targeted pricing actions and from customers trading up to higher-priced unlimited plans.

Postpaid phone churn of 0.84% for the quarter remains historically low. Our continued low churn levels clearly demonstrate customers prefer the value proposition they are getting from AT&T.

In prepaid, our phone churn was less than 3% with cricket phone churn substantially lower. We remain encouraged by the overall health of the wireless industry and are confident that our Mobility business will deliver again as we expect to continue to grow in customers, service revenues and EBITDA at a healthy clip in 2024.

Now let's move to Consumer and Business Wireline results, which are on Slide 9. Let's start with Consumer Wireline. As John mentioned, the financial and operational performance of our fiber business is exceeding our initial expectation. Wherever we have fiber, we continue to win.

In the fourth quarter, we added 273,000 fiber customers even in a seasonally slow fourth quarter and lower year-over-year household moves. This accentuates the resiliency of fiber and the superior experience it provides to customers.

Broadband revenues grew more than 8% year-over-year due to fiber revenue growth. Fiber ARPU was $68.50, up $0.29 sequentially with intake ARPU now at more than $70.

Consumer Wireline EBITDA grew more than 10% for the quarter and more than 8% for the full year due to growth in fiber revenues and the more efficient cost profile of fiber. And while fiber remains our focus and lead product, we've also been encouraged by the initial introduction of AT&T Internet Air, our targeted fixed wireless access service. We had 93,000 AT&T Internet Air subscribers at the end of the year and now offer this service in parts of 35 locations.

Turning to Business Wireline. EBITDA was down about 19% in the quarter. This was impacted by about $100 million of items, primarily discrete intellectual property transaction revenues we had in the fourth quarter of 2022 that did not repeat in the fourth quarter of 2023. As I will discuss in a moment, we expect trends in Business Wireline EBITDA to improve on a full year basis in 2024.

In the fourth quarter, our Business Solutions wireless service revenues grew nearly 6%. This is an area where we continue to grow faster than our nearest peer. FirstNet also continues to be a growth vector for us with wireless connections growing by about 260,000 sequentially.

Now let's move to Slide 10 for our 2024 financial guidance. Here are our expectations for the year. First, we expect to again grow Mobility subscribers against a healthy but normalized industry growth.

We also anticipate continued benefits from a larger subscriber base and modest growth in postpaid phone ARPUs. This should result in wireless service revenue growth in the 3% range for the full year.

For broadband, we expect revenue increases of 7%-plus for the full year. This growth reflects continued fiber subscriber growth and higher ARPUs from the mix shift to fiber. Overall, we expect to continue to grow consolidated revenues next year.

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As we think about the EBITDA trends in 2024, we expect to grow Mobility EBITDA in the mid-single digits as our disciplined approach helps us to grow valuable subscribers. In Business Wireline, we expect EBITDA to be down about 10% plus or minus. We expect legacy Business Wireline declines to be partially offset by incremental cost savings and increased fiber and fixed wireless revenues. Additionally, our guidance reflects the impact of the expected deconsolidation of our cybersecurity services business.

In Consumer Wireline, we expect to grow EBITDA in the mid-single-digit range, thanks to continued growth in fiber revenues and to a lesser degree, growth in fixed wireless subscribers. This will be partly offset by an expected continued decline in legacy copper revenues.

Finally, similar to last year, we expect to benefit from ongoing corporate cost reductions again this year. These factors combined deliver consolidated adjusted EBITDA growth in the 3% range for the full year.

Moving to EPS. Here's what to think about when you do your calculations. Our full year guidance reflects noncash headwinds of about $0.24, which include the following: $0.17 higher depreciation. Approximately half is from accelerated depreciation on Nokia assets impacted by our Open RAN transformation, and we expect this impact to continue through 2026.

The other half is incremental depreciation from our elevated 5G and fiber builds. Headwinds of approximately $0.07 associated with higher noncash pension and postretirement benefit costs, largely driven by declines in prior service credit amortization. As a reminder, prior service credit are the result of amendments made in prior years to our post-retirement benefit plan that reduced benefits.

Under GAAP, the impact of these amendments is recorded as a credit and equity and amortized into income over the expected service period of planned participants. In 2023, prior service credit amortization was $2.6 billion, which is a positive contribution to other income. In 2024, we expect prior service credit amortization to be $2 billion or a decline of about $600 million.

Next year, we expect a more moderate decline in prior service credit amortization, continuing to decrease in the subsequent years as prior year planned changes become fully amortized. We have provided the projected future annual amortization by year in the footnotes of our supplemental financial trends document on our Investor Relations website.

Importantly, we have continued to lower our pension obligation, including our transfer of certain pension assets and liabilities seen last year. And we don't expect any material required contributions to our pension plans for the balance of this decade.

In addition to these noncash items, the guidance also includes $0.08 of other headwinds. These include $0.05 impact from lower spectrum-related interest capitalization as we near completion of our initial C-band spectrum deployment in 2024. We don't expect capitalized interest to be a significant headwind beyond 2024 and a $0.03 impact from lower adjusted equity income from DIRECTV, which we expect to be about $2.6 billion versus $2.9 billion in 2023.

Lastly, we expect an effective tax rate in 2024 consistent with the 2023 rate. Given these assumptions, adjusted EPS for 2024 is expected to be in the $2.15 to $2.25 range.

Normalizing for these 4 items, our 2024 guidance would imply adjusted EPS growth consistent with our expected growth in adjusted EBITDA. We expect to be in a position to begin to grow adjusted EPS again in 2025.

Turning to free cash flow. Here's what to consider for 2024. First, we expect adjusted EBITDA growth in the 3% range. We also expect cash taxes to be up about $1.5 billion based on current tax law. As we look out to 2025, we would anticipate cash taxes to increase around $1 billion over 2024.

Cash distributions from DIRECTV in 2023 were $3.7 billion, down about $750 million compared to the prior year. Looking forward, we expect DIRECTV cash distributions to decline at a similar rate in 2024 and thereafter.

I'd also like to point out that DIRECTV's debt levels have not changed materially since the end of 2021, and its debt is nonrecourse to AT&T. Another impact to free cash flow is lower capital investment. We expect 2024 capital investment levels in the $21 billion to $22 billion range.

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It's also important to note that the mix shift of our capital investment continues to move in a favorable direction as vendor financing obligations decline and project capital spend increases. Accordingly, we plan to continue to pay down short-term vendor and direct supplier financings this year as we shape an even more sustainable and ratable quarterly free cash flow cadence.

Remember, our capital investments consist of payments from prior year capital spend plus current year spend. This year, there would be less payments of prior year obligations than we saw in 2023 due to significant reductions in vendor financing. However, in the year, we do expect higher spend on capital projects.

When you combine all these factors, we expect to deliver free cash flow in the $17 billion to $18 billion range this year. This is greater than 2x our current annual common dividend and more than enough to cover other commitments.

As we discussed in recent quarters, we continue to make progress on improving the ratability of our free cash flow. Last year, our free cash flow was about 70% back-end loaded to the second half. We expect that to be closer to 60% this year.

Accordingly, we expect first quarter free cash flows of at least $2.5 billion. Overall, the combination of increased free cash flow and fewer onetime items will enable us to continue our deleveraging progress in 2024 and remain on track to achieve our target range of 2.5x net debt to adjusted EBITDA in the first half of 2025.

Amir, that's our presentation. We're now ready for the Q&A.

Amir Rozwadowski - *AT&T Inc. - Senior VP of Finance & IR*

Thank you, Pascal. Operator, we're ready to take the first question.

QUESTIONS AND ANSWERS

Operator

Our first question will come from the line of John Hodulik of UBS.

John Christopher Hodulik - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Great. First, thanks for all the detail on the free cash flow, Pascal, but can we focus on the sustainability of the postpaid phone growth in '24? You added 1.7 million subs, but gross adds were down a bit in the fourth quarter.

I guess, first, could you talk about the momentum you're seeing here in the first quarter and how competition is shaping up? And then, John, you talked about these underpenetrated markets, these 3 segments, the value, SME and converge. Any color you can give us in terms of how big of an opportunity those underpenetrated segments are or how you expect to address that in the year in '24?

John T. Stankey - *AT&T Inc. - CEO, President & Director*

So look, the -- first of all, in the aggregate market, as we've been indicating, we thought there was going to be a little bit of a slowdown from previous year's activity level. We saw that happen in '23. I think we're at a more normalized level right now. We're kind of expecting that is going to continue into next year.

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It will be probably right around the same place. We're not going to see it dramatically different. And our expectations are we're going to continue to attack the market the same way we've been attacking it. And we've been really consistent about that over the last 3 years.

And I don't think you should expect to see that there is going to be any less sustainability of our performance than what you've seen over the previous couple of years and the strategies and the tactics we use. And the market is a healthy market right now.

I would say if you would look at the fourth quarter and look at what we delivered on postpaid phone net adds, your point on gross is an accurate statement. And I think it reflects the fact that we're trying to be incredibly disciplined around profitable growth.

We managed to outgrow one of our peers that has already reported. We did that, I think, being very disciplined on our promotional levels and being very strategic in the channels that we operate in.

As I've indicated on previous calls, we delivered an incredible churn level, which helped us do that. It's always easier to keep your customers and churn them out. We've managed to keep that churn level while we've been growing ARPU.

We're driving operating leverage and EBITDA growth in a really strong fashion. I think the equation is incredibly sustainable with what we're doing right now. We're going to tweak it. And that's what I was alluding to in some of the things that we know there are some areas where we could probably do a little bit better.

I suspect looking at some of the numbers yesterday from what Verizon reported. There are some areas that they probably looked at and said that they can do a little bit better in. And we all have regional players that we play against and things that we do like the cable companies as we kind of understand the playbook and look at it, we can adjust how we approach that. They're kind of a new player in the market.

My guess is after everybody comes out and reports, we're going to see the 3 large incumbent wireless carriers have had very effective quarters. We all understand how to run our business.

I think we're all being pretty disciplined around how we go about it. I think we're all conscious of the fact that we've invested at record levels and need to make sure that we're driving returns on those record levels of investments. And to me, that kind of lines up for a very sustainable outlook as we move into next year.

Operator

And Simon Flannery of Morgan Stanley.

Simon William Flannery - *Morgan Stanley, Research Division - MD*

I wanted to come back to the balance sheet. We're now looking at sort of this time next year or to near where you hit your 2.5x first half of '25. So it's getting closer. How are you weighing at this point the opportunities to either buy back stock or to attack that 10 million to 15 million additional fiber homes or delever further? It would be great to get your thoughts on that. And then if you can give us anything on your ACP exposure and how that might play out and your latest thoughts on BEAD, that would be great.

John T. Stankey - *AT&T Inc. - CEO, President & Director*

Sure. So I would say, first of all -- and we've been really clear on this, and it doesn't change. First and foremost, we want to invest at the right level in our business to make sure that we can grow it in a way that we think drives sustainable returns to our shareholders.

Secondly, the dividend is something that we have to protect and make sure that we're offering a fair return on, and then getting the balance sheet where we want to get the balance sheet is absolutely critical. When we arrive at that point, it's the time to make the decision.

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And the decision has to be made relative to where stock is trading, where interest rates are in the environment, what opportunities we have in front of us as a business to continue to grow things based on how policies evolve in this country and where we think there's opportunity for us to grow and get fair returns. All those things will go into the Board's deliberation.

I think what you're touching on, though, is we are about ready to enter the doorstep where we have choices around what we do with that capital. And that's the most important thing.

And I step back from the year of 2023 and look at the progress that we have made not just on delivering the commitments that we made back to all of you and our investors, but the fundamental improvements in the structure of our balance sheet, the momentum that we have in the business and to be on the doorstep of those options is a really exciting thing in aggregate for the management team. And I think it shows an incredible amount of progress and the hard work.

We have a tremendous amount of optionality in front of us. As we shared with you, our balance sheet is in really good shape in terms of how we've been able to terrace out our obligations and the rates that we're paying on it and how our organic cash flow will allow us to pay down the maturing debt that's in there.

And so as we choose to drive more shareholder value, the field is wide open to us as to where we wish to go and what we wish to do. And we will do what is in the most and best interest of the shareholder at that point in time.

And we view it as being a really important moment for us to arrive at. It's something the management team is focused on and is ensuring that we get there. And we all know that it's incredibly important to driving the value of our stock.

On the ACP side, I guess the editorial comment I'll make is it's unfortunate that we're at this moment, and I say that from the perspective of we have an awful lot of subsidy that's deliberate over -- that are in regulatory structures today, which are important to ensure that every American can gain access to the Internet.

And those subsidies, unfortunately, in many cases, were set up and structured from many years ago. And they've been funded under constructs that have kind of run their time as industry and products have shifted and changed.

And from my point of view, regulators right now should be spending their time and energy stepping back from that and understanding how we take all the different subsidy structures in place and get them together in a coherent approach to ensuring those most in need can get subsidy that they need to be able to afford access to the Internet so that as a country, we can step back and say that everybody has access to capable, scalable Internet that allows them to do all the things that are so critical today.

And I think through a combination of ACP, universal service reform, other programs that are out there, that money is there. If there was a political will and a coherent policy put forward that it would be good for the industry and good for our country.

Unfortunately, we now are looking at a triage moment on one program, ACP. I don't know where it's going to go. I will tell you, either way it goes, we'll be fine.

We've given you guidance fully knowing it can break one way over the other. I'm comfortable that what we can deliver in our plan next year isn't going to hang on what the government chooses to do with ACP. If they choose to cancel the program and don't fund it and move forward on it, we have plays that will run. We have things that we'll do with our customers and how we approach the market and what we do to respond to it.

And we believe we can manage through that in an effective way within the context of the size of our company and what we do and how we go to market. If they go the other way and they do manage to fund it or fund it on some kind of a revised basis, AT&T will be continuing to lobby that regulators should be thinking about a more holistic and sustainable approach trying to get this right for the future so we don't approach this moment again.

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It's some last-minute circumstance and that we can have a thoughtful approach to it. And that battle will not go away, and I think it's the important thing for all of us to do.

On the BEAD side, Simon, I don't know that a lot has changed other than we've seen some incremental progress on a couple of states moving forward in their process. As I shared with you the last time I was asked this question, we'll probably have 50 different recipes of how BEAD ultimately works its way into the market.

There may be some similarity between each of the states, but there clearly is 50 different states and 50 different points of view on this. I think we're going to be very measured and targeted as to where we go in, both in terms of the states that are setting up the right kind of rules that incent the joint private sector investment as well as the right rules that are sustainable for how you operate in that.

I think a good news story is I point to a state like Texas, I think was the largest benefactor of BEAD financing. Seems to me policy-wise, they have a pretty sound approach to things. It looks to me like we can work effectively in the state. Given it's a large amount, we'll probably have a good opportunity there.

There's a few other states that I look at and say, I'm not sure the policies are going to line up effectively. At the end of the day, as I said in my opening comments, we have 10 million to 15 million organic opportunities to go and invest and build.

We know what the average cost per pass location is for us to build those areas. It's a very controlled and measurable number. In some of the BEAD circumstances, the amount of private capital per living unit that's being required is actually substantially higher than what our average cost is and what I would call our organic and market-driven non-BEAD footprint.

And so if I think about I can get more scale, more households faster in places where the construct is very straightforward, the amounts and the plays to run are getting more scale in existing areas, that's what weighs against your incentive to invest. And I think states that understand that are coming up with smart policies to try to be competitive with that. And states that don't understand that are probably going to have pretty voluminous and deep requirements that ultimately cause private capital to maybe shy away from matching in some of those areas.

Operator

And Phil Cusick of JPMorgan.

Philip A. Cusick - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

John, maybe talk about pricing in wireless this year, and Verizon just ran through another one. It seems like the inflation-driven wave of general consumer price increases is slowing.

Do you think there's more room to take a little more price in the postpaid space? And then maybe just expand on the AT&T Air effort. How much does this scale over time? And how many more markets you think are possible this year?

John T. Stankey - *AT&T Inc. - CEO, President & Director*

So look, I'll give you the same answer on pricing I think could probably give every time I'm asked it. And I just suggest there's a string of data points to go back and look at to kind of buttress up my observations on this, which is we've been pretty deliberate about where we think we add additional value into our customers and whether or not we can ultimately drive price changes that are aligned with driving that incremental value.

And as I mentioned earlier, we've invested a heck of a lot in our networks. People are using over 30% more of it per year. They are getting more utility out of what we do, and the capability of the networks is allowing them to do more things in more ways.

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And as a result of that, I think that value is allowing us to go in, in places and certainly drive some remuneration to the level of investments that we're putting in. And you see it in our ARPU growth. I think we shared with you that we expect probably some modest ARPU accretion in our guidance as we move through next year in the wireless space.

Some of that will come from moving people up to higher-priced plans with more bells and whistles, and some of that will come through pricing movement. I would tell you I go and I'd rest on our track record.

You're seeing the numbers. You've seen what we've been able to do. I think we can continue to run many of the same plays that we've run. And we're doing it with -- I don't know, we may end up with another record churn quarter or best-in-industry churn quarter. We'll be darn close to it, and we're doing it at levels of ARPU performance in the market that I think is pretty stealth.

So my message is, I think we know how to do this. I think we've done it pretty effectively. I think the team is pretty diligent about it. I think there's opportunities for us to continue running the business the way we've been running the business. And I expect we'll have to do that in 2024 to deliver our plan and do what we need to do, inflation-driven or not.

On AT&T Air, again, not much different in my narrative around it. I don't expect that we are going to be pushing the product in the same way that some others in the market are pushing it to date.

We've made a conscious choice as a company that we want to dedicate capital to investing in fiber, which we believe is a more sustainable long-term means to deal with stationary and fixed broadband needs. It doesn't mean that we don't think that fixed wireless serves some segment of the market. It does.

It serves certain types of circumstances in the consumer base. It serves certain types of circumstances in the business base. And we'll take advantage of those certain circumstances.

As I've said, there's a lot of small businesses that have usage profiles that fixed wireless is very attractive to. It's something that we will lean into this year. You will see it reflected in our performance as we move throughout the year.

We have places where because of our spectrum profile and our share position in particular markets, we can maybe lean in a little bit more aggressively and defining the consumer segment that we might serve with the product and service on a competitive market that you will see us begin to add some degree of market penetration on.

And as I've told you before, we will continue to use it very, very actively in our transition away from legacy assets as we begin to shutter copper footprint, take out square miles in our network, not have the operating costs associated with those fixed infrastructure that we can use this as a catch product.

It's a very effective catch product in some of those areas, especially given the density characteristics of what's happened that we haven't built fiber there yet or we will not build fiber. But it still allows us to meet our obligation back to the customer base and in our state franchise agreements, et cetera.

So I don't think you're ever going to see a scale of the kind of monthly numbers and quarterly numbers you see coming from some of our competitors, but it's a great tool. It's a great opportunity for us to continue to grow.

I think the most important thing to understand as you've seen is we are broadband positive, aggregate broadband positive. And we are going to continue to be aggregate broadband positive going forward. So not only are we growing EBITDA, we're going to now start growing the customer base. And this will be one of the tools we use to have that ratable sustainable growth that I think we've been seeking.

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Operator

We have a question from the line of David Barden of Bank of America.

David William Barden - *BofA Securities, Research Division - MD & Global Research US Telecom Services & Communications Infrastructure Senior Analyst*

I guess the first one, Pascal, if you could kind of elaborate a little bit on the range of the free cash flow guidance. Is it dependent largely on where capital investment lands within that 21 to 22? Or are there other potential moving parts that we don't see in that equation?

And I guess related to that, maybe, John, you ended the year at 26 million fiber homes passed. The goal is 30 million by 2025. Obviously, you've got a choice to kind of continue to kind of deploy the way you've been doing, which puts you close to that 30 by the end of this year or you could throttle it back in an effort to contain the capital investment out the door and support the free cash flow guide. Could you kind of elaborate a little bit on the game plan there?

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

Here's the way I think about cash. We've made really good progress over the course of 2023 in paying down some more short-term financing obligations. And therefore, as I look at the capital spend in 2024, it's going to be more heavily weighted towards project spend.

We have really good line of sight on that. It's going to be within the range we provided to you, and we feel really good about that. The other factor that we have reasonably good line of sight to is our cash taxes for the year based on current legislation. We have pretty good line of sight towards to where that lands.

Obviously, we're expecting EBITDA to grow. That's going to be the driver of the growth coupled with the step down in capital investment. I don't anticipate any material headwinds from working capital, albeit depending upon how we're doing, we may decide to continue to lean into short-term financing obligations to reduce those.

So those are the swing factors. But look, all in all, I feel really good about our ability to deliver on the guidance and continue to grow the business from there.

John T. Stankey - *AT&T Inc. - CEO, President & Director*

Dave, the way I would tell you, I go back to the question that was asked earlier about capital allocation and what we need to do. And I would say, first and foremost, you got to understand we've given you guidance. We've made a set of commitments. Those are important to us. That's what we need to deliver.

And whatever decision making we ultimately undertake has got to be within that context of ensuring that we're consistent in delivering back to you in our commitments. What I would tell you, it's not just making a decision of, well, are there incremental homes you can go get with fiber.

There are opportunities to present ourselves -- present themselves to our business in a variety of different places where we have a choice to say we're a little ahead of plan or we were a little more efficient, should we do something else here or there.

And we'll take advantage of those things every time they pop up. And I would tell you, very comfortable we're going to meet our commitment to you of 30 million passings. But I don't know, we could see something happen where we get a vendor circumstance like we've seen in wireless where somebody comes in and changes pricing, and we get more efficiencies out of something that we're -- we see great results coming back in on the GigaPower side, and we decide that's a better place to go and allocate a little bit more capital.

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All those things are evolving. We'll weigh them. We'll make decisions. And we'll come back in, and we'll tell you what we're going to do, all within the context that we want to make sure we're consistent in meeting our commitment back to you.

Operator

Michael Rollins of Citi.

Michael Ian Rollins - *Citigroup Inc., Research Division - MD & U.S. Telecoms Analyst*

I'm just curious what you're seeing in terms of the stages of the economy for consumers and businesses. And for your Business Wireline segment, can you share more of the playbook of how AT&T is planning to improve operating performance in that segment?

John T. Stankey - *AT&T Inc. - CEO, President & Director*

Michael, happy to. So look, the economy is proven resilient. I expect the economy is probably going to continue to be reasonably resilient moving into this year. It's an election year. Not that I'm a great soothsayer of what it's going to drive in terms of policy, but it seems like there's winds lining up that like you would expect moving into an important election year, policy will probably be such that it favors trying to keep growth in the right place.

And I think that will probably take what was a bit of a tenuous situation last year in terms of the rate of inflation decline and what that might do to growth rates and move us through 2024 that's probably going to continue to be one where we park along and see the economy growing. Our expectations aren't that we're going to see some kind of uptick in growth.

We think the combination of a little bit higher than probably target level inflation and what's going on in aggregate in the economy, it's going to keep it a little bit tampered down. But it's something that we expect to still see to be relatively productive. We haven't seen anything with the consumer that suggests they're not paying their bills or not in a position to continue to buy services from us.

We certainly don't see anything in business formation right now that causes us any degree of concern at this juncture. So by and large, I think we feel like we're in a pretty good place moving into 2024. Absent what I would call big exogenous variables in the global system that occurs, we feel like policy will probably line up pretty well.

On the Business Wireline side, I think there's a couple of things I'd first say is one, what was not the right stuff in the fourth quarter that we have to kind of acknowledge one, Pascal mentioned in his comments. We had nearly $100 million of onetime stuff that didn't repeat. That's certainly fully explainable, something we expected would be the case.

The piece that probably -- I don't think we nailed at the beginning of the planning cycle for '23 that ended up transpiring over the course of '24 that further impacted that segment was wholesale revenues were weaker than what we expected. Those are important revenues in the segment because they tend to be higher margin, more resilient, subscription-based services.

There's been a fair amount going on in the industry relative to restructuring of access services and wholesale. Some of it's been driven through M&A consolidation, some of it's through technology. We are through, we believe, the worst of that now.

We've had 2 years of having to kind of deal with a lot of that repositioning and renegotiation of contracts. We think we're in a pretty good position where our visibility for '24 is better than where we have been and don't expect that we're going to have quite the pressure we saw from that side of things that is a bit different from forecasting and fundamentals perspective.

And then I go to how we have to execute differently. I've given a fair amount of information and focus on we're really shifting into the mid-market and trying to be a much more effective provider into the mid-market. And we are, in fact, seeing the green shoots of that occurring.

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It's moving a little slower than I might like. It requires us to open up entirely new distribution channels. It requires us to cultivate new relationships with ways to represent our products than what we've traditionally done through what I would call direct owned and operated channels, requires us to rebundle and repackage the products a bit differently to be effective in that space, of which we've been doing.

And that requires us to do things like reprice, change systems, build capabilities for third parties to work with. We are making progress, and we're seeing that. We're starting to see that instantiate itself in fiber-driven revenues that are coming on the products and services we want to sell, which are connectivity-based products and services.

And so we're going to continue to run those plays. We've got to get a little bit better at it. But I'd also say step back and realize that while we report segment-wise for wireline only, you should understand that the business marketplace is an important marketplace to us.

And on a combined basis, wireless and wireline, we're still growing EBITDA in that segment. And some of it is being driven from the goodness of more and more businesses are able to run the core of their company on a wireless infrastructure.

And you're seeing some of that put the pressure on the wireline side of the business, but we're benefiting from that on the pickup on the other side. And when we talk about things like fixed wireless asset and AT&T Internet Air being an opportunity for us, we will be in a much better position this year on the cash to do some of that.

And frankly, that's not a trajectory move and a structural move that I think is a bad one for us over the long run. So that's kind of how I view the segment moving in.

And we still think our brand plays incredibly well. We can walk in and have credibility. We've got the right products that ultimately customers want if we can get them distributed properly. And I have high optimism that as convergence becomes more important, we will distinguish ourselves further in the mid-market.

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

Mike, one other point just to add as well. As the legacy revenues continue to decline, we have an opportunity to continue to really hit costs in that sector fairly hard. And so I'm confident that, that will also be a factor in moderating the losses over time.

Operator

Our last question will come from the line of Tim Horan of Oppenheimer.

Timothy Kelly Horan - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Can you talk about the longer-term capital intensity, what you're kind of thinking currently? And I guess in a lot of moving parts of free cash flow, maybe a sense, can you grow free cash flow for this year? It seems like you can, and it seems like your capital intensity is still relatively high versus your peers. Just some color around longer-term free cash flow growth.

John T. Stankey - *AT&T Inc. - CEO, President & Director*

Yes. Let me -- going back on the capital allocation issues, Tim. I obviously believe that we should not be at the sustained levels of investment that we're at right now forever. Our point of view is we're building infrastructure that's sustainable infrastructure that will build a franchise that will last for many years to come.

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The fiber investment is a hard one to do at the front end, but it's an incredibly durable investment. The depreciation levels on this go out a long time for a reason. And the beauty of the technology is improving capacity on it is a relatively light lift incrementally once you got the glass in the ground.

So you heard me talk about we should be at mid-teens as a percent of revenue in a steady state as we kind of get through the front end of this investment cycle. As long as we continue to perform in the market the way we've been performing on this elevated level of investment, I'm comfortable that we should continue to do that.

But we've got to continue to perform and make sure we deliver the right kind of results on that. So we've probably come through the worst of it at this juncture. We will get through kind of what we need to do on fiber before we're into another air interface investment.

And as I mentioned in some of my public remarks that I made in December, the fact that we're moving to ORAN will give us another way to kind of manage some of our capital intensity moving forward. The way I wish to describe that is it's not going to get us to different levels of historic investment that it will be one of the tools that we do to manage our portfolio of capital investment between fixed and mobile services to drive the kind of returns we need to drive.

We're going to get more tools out of our ORAN investment to do that and still meet the needs of our capacity growth in a more efficient fashion in our wireless network moving forward that gives us the room to do some of the things that we want to do on the fixed side.

So I feel pretty good about where we are. I think we're through the worst of it. We'll see it continue to get more efficient as we move forward. We'll be selective on where we can get those kind of returns based on our market performance. And overall, I think we're in good shape. Pascal, did you want to add anything on that?

Pascal Desroches - *AT&T Inc. - Senior EVP & CFO*

No, look, the investments we've been making, obviously, are working. And as I look forward, we've said it. We expect to operate at mid-teens capital intensity long term. And we're committed to that. We're also committed to having a capital allocation plan that also looks for all the ways to deliver value to shareholders.

Amir Rozwadowski - *AT&T Inc. - Senior VP of Finance & IR*

Thanks very much, Tim. I turn it over to John for final comments.

John T. Stankey - *AT&T Inc. - CEO, President & Director*

Well, thanks. I appreciate everybody sticking with us, and I apologize about some of the longer prepared remarks at the front end, but that's not atypical as we try to give you some guidance and visibility into the business. And appreciate you enduring that.

I would just reiterate what I said in my opening remarks that I thought 2023 was an incredibly solid year for us from an execution perspective at AT&T. I'm incredibly proud across the board of what we've done and the formula in optimizing the various parts of the business as we move through it.

It's a solid, a fundamental year at AT&T as I can remember in recent history, certainly in a very long time. If I think about those fundamentals, you see them manifested all the way through the balance sheet and our cash flow statement.

And I think that's the most important thing to kind of step back from and realize this business enters 2024 in a very, very strong and healthy position. I'm excited about where we enter 2024.

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We've taken great steps to simplify our business. We still have some more work to do in that regard, but we are entirely focused on the future right now. And it's a future that I believe lines up incredibly well for the asset base of AT&T. As consumer tastes are changing, as we're seeing the move to convergence, as we see the growth that's occurring and the importance of high-performance networking, I believe AT&T has the asset base and the positioning to move with where this future is going.

And that's why I'm so optimistic about what we have in front of us. And I think we're going to get to a very exciting place, the start of 2025 where we have the choices in front of us that we would like to have and we worked so hard to get.

I'll give you one final housekeeping thing before we separate. This is Amir's last call with us. We've worked him hard in the last 3 years. And I guess like any thoroughbred that we work hard, we need to send him on to his next chapter, and we're excited about what he's going to be able to do for us is we give him a new opportunity to show what he's been able to do and learn about the business.

And as a result of that, I hope you join me in welcoming Brett Feldman to AT&T. A couple of you might know Brett. He's been around a little bit. We're delighted to add Brett. And as good a job as Amir has done, and it's really hard to fill those Air Jordans, I'm sure Brett will do an exceptional job of that. We think he'll be a great addition to the management team. And we'll continue to work hard to keep you in the loop moving forward.

So thank you all very much for your time this morning, and we'll see you in 90 days.

Operator

Ladies and gentlemen, that does conclude today's AT&T's earnings call. We'd like to thank you for your participation, and thank you for using our service. Have a wonderful day. You may now disconnect.

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